

**The First Amended and Restated
Administrative Guidelines
for the
Good Neighbor Next Door Program**

The City of Houston (City) Housing and Community Development Department (HCDD) has designed the Good Neighbor Program to provide 100 teachers, police officers, emergency medical service personnel (EMS) and firefighters with the opportunity to purchase homes in Houston Hope Neighborhoods. HCDD staff will administer the Good Neighbor Next Door (GNND) Program according to the procedures and guidelines set forth in this document. The GNND Program is designed to help make American communities stronger by encouraging teachers, police officers and firefighters to purchase homes in low-to-moderate income neighborhoods.

SECTION I - Applicant Requirements

Teachers, police officers, EMS and firefighters will be eligible for the program if he/she is a homebuyer who will occupy the property as his/her principal residence during the affordability period of ten (10) years. The applicant must be low-to-moderate income, defined for purposes of this program as having a gross annual income that does not exceed 80% of the City median income adjusted for family size, demonstrate the ability to obtain a mortgage loan and sustain ownership over the period of affordability.

The level of assistance provided to each approved applicant will be \$40,000. The applicant's combined annual household income must be *at or below* the amounts listed below to qualify for the GNND Program funds.

2005 Household Income Limits*

<u>Household Size</u>	<u>Maximum Income</u>
1 person	\$34,150
2 persons	\$39,050
3 persons	\$43,900
4 persons	\$48,800
5 persons	\$52,700
6 persons	\$56,600
7 persons	\$60,500
8 persons	\$64,400

*** Subject to annual changes**

Similar to any normal mortgage loan, applicant must meet the credit and underwriting criteria established by the participating Affordable Lending Partner (ALP) providing the loan. Based on guidelines, teachers must also meet the HCDD's requirements to qualify under this program.

A. Income Determination

Income for all persons over eighteen years of age living in the property must be included in determining income for program eligibility. Income from a non-purchasing spouse must be included in Family Income calculations. **Total Household Income used for program eligibility may be different from that used by the ALP.** The City has adopted the Section 8 program definition for annual (gross) income (23 CFR Part 5). The Part 5 definition of annual income is the gross amount of income of all household members anticipated to be received during the coming 12-month period.

Required Documentation

HCDD will review and certify the household income information according to HUD approved procedures and guidelines for determining annual income.

Each ALP will submit the following documents for all household members over the age of 18 years old when applicable:

- Income Worksheet signed by all household members.
- A written Verification of Employment (VOE) and three (3) calendar months of paycheck stubs dated within ninety (90) days of file submission.
- Copy of all award letters, income verification forms and/or third party verification forms to verify other sources of income such as child support, social security, social security supplemental income (SSI), pensions, annuities, etc.
- The last **two (2)** years complete income tax returns including all schedules, W-2's or 1099's.
- Provide birth certificates or legal documentation of adoption or guardianship for all household members seventeen (17) years of age and under.
- Three (3) calendar months of bank statements dated within ninety (90) days of file submission.
- If applicable, additional documents/statements from the applicant(s) related to marital status, i.e., divorce decree, legal separation documents, and/or death certificate.
- Copies of all household members Texas Driver's License(s), Social Security Card(s), and/or Permanent Resident Alien Card(s).
- Verification of Deposits (VOD), bank statements and/or cashier's checks to verify that the borrower has at least \$1000 in reserves. The borrower cannot have more than \$50,000 in liquid assets (excluding retirement accounts).

Income Calculations that may require explanation and review:

- **The City and/or ALPs will review income from overtime, bonuses, seasonal work, etc., over a minimum period of three (3) years and complete an "income average" when the applicant has been employed at the same employer for the last three (3) consecutive years.** The amount obtained by income averaging will be added to the applicant's projected gross

annual income. See also Section II A of Appendix I.

- Provide proof of varying compensation, such as tips or gratuities, along with year-to-date information or average income.

**ALP's are encouraged to use the HUD online income calculator to determine family income.*

The HUD online calculator may be found at the following web address:

<https://webapps1.hud.gov/hfc/calculator/>

B. Completion of Homebuyer Education

The applicant must complete at least eight (8) hours of homebuyer education from any Participating HUD Approved Housing Counseling Agency. It is the responsibility of the applicant to pay all costs incurred with signing up for a homebuyer education course.

The Participating HUD Approved Housing Counseling Agency will prepare a Counseling Certificate and present it to the applicant after the course completed.

Required Documentation:

The applicant must submit to ALP a copy of the Counseling Certificate to be included in the loan file.

C. ALP Loan Approval

Downpayment, maximum debt to income ratio, maximum total obligations, credit history and credit report or loan terms (Except for Lead-Based Paint See Section II E.) are the responsibility of the ALP to assess risk; however, the borrower, co-borrower, and non-purchasing spouse cannot be delinquent on a student loan, a student loan repayment plan, Internal Revenue Service taxes or City taxes. Also, the borrower, co-borrower, and non-purchasing spouse cannot be late or delinquent on any utility payments applicable to the current or former address(es). **Please be advised that the back ratio for all ALP loans cannot exceed 50% and PITI must be included in the total monthly payment.**

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Required Documentation:

Approval letter from ALP showing interest rate and loan amount. Rate must be locked at the time of submission to HCDD. Also, an executed 1003 Loan application, 1008/MCAW Underwriting Summary and tri-merged credit report must be submitted. **A tri-merged credit report is needed for the borrower, co-borrower, and non-purchasing spouse.**

D. Employment Certification

Teachers must be employed full-time by a public school, private school, or federal, state, county, or municipal educational agency as a state-certified classroom teacher or administrator in grades K-12. Teachers also must be in good standing with their employer.

Police officers must be a full-time, sworn law enforcement officer who is employed full-time by federal, state, county, or municipal government; or a public or private college or university. The

eligible officer must be sworn to uphold and make arrests for violations of federal, state, county, or municipal law.

Firefighter or EMS must be a full-time, paid personnel who is employed by any municipal government.

Required Documentation:

Teachers must document that they are employed by an educational agency that serves the school district/jurisdiction in which the home they are purchasing is located. Teachers also have to provide a copy of their Teacher's Certification that is issued by the State of Texas.

Police officers' employer must document that the officer is a full-time law enforcement officer with the general power to arrest. The certification letter must be submitted to the ALP.

Firefighters' or EMS' employer must document that the firefighter or EMS is a full-time employee. The certification letter must be submitted to the ALP.

SECTION II - Property Eligibility Criteria

Any property, existing or newly constructed, located within one of the Houston Hope Neighborhoods which will become the applicant's principal residence, may be eligible for GNND Program funds. Properties assisted with funds must be free from any defects that pose a danger to the health or safety of occupants before transfer of ownership.

A. Type of Property

Property approved for funding includes new and existing structures:

- Single-family property (1 unit)
- Condominium unit/Townhouse
- Modular home/Manufactured home
- Cooperative unit

Required Documentation:

One complete copy of the current property appraisal showing the type of unit is required.

B. Sales Price Limitations

The sales price for the property cannot exceed \$135,000.

Required Documentation:

The sales price must be supported by an executed earnest money contract or contract for sale not to exceed \$135,000.

C. Property Location

Property must be located within one of the Houston Hope Neighborhoods.

Required Documentation:

Tax Certificate obtained from Title Company by the ALP with the Tax I.D. Number. Also, HAP staff will verify the property location with the appropriate appraisal district.

D. Property Condition

If the property to be acquired is an **existing** property, a clear HCDD Minimum Property Rehabilitation Standards Inspection Report pursuant to local minimum property standards and building codes adopted by the City must certify it as decent, safe and sanitary. If the property to be acquired is a newly constructed unit, it must be in full compliance with the City's new construction codes and if applicable any state requirements for new construction, including documentation that the structure complies with energy efficiency requirements as contained in Chapter 11 of the state's International Residential Code (IRC).

Required Documentation:

The property must be appraised in order to establish that the property is decent, safe and sanitary. A full copy of the Appraisal listing the condition of the property as "Average" or above must be submitted to HCDD. Also, HCDD encourages the potential homebuyer(s) to have an inspection performed on the property to be acquired. If an inspection is performed, the ALP must provide a copy of the private inspection to HCDD. Prior to the commitment of any federal funds, HCDD Inspection Services Section will conduct an independent inspection on the property.

E. Lead-Base Paint Risk Assessment

For any property built before 1978, the City's Health and Human Services Department will perform the lead-hazard risk assessment prior to approval of HCDD financial assistance. The requirements contained in the Texas Environmental Lead Reduction Rules, Section 295.272 Standards For Conducting Lead Based-Paint Activities and full compliance with HUD's Lead-Based Paint Regulations at 24 CFR Part 35 will be met. All corrective work must be completed by the seller prior to loan closing and must be inspected and approved by HCDD's inspectors. All LBP work must be undertaken and completed in accordance with all applicable safe-work practice requirements, certifications, licensing, etc. as published by HUD in the LBP regulations as noted above.

Required Documentation:

If the property was built before 1978, the property must be certified as free of lead hazards. If the property was built during 1978 or after, a "**Lead Hazard Disclosure**" will be delivered to HCDD with the applicant's signature and date.

F. Environmental Review for Federal Funds

A HUD Environmental Review must be performed on the property prior to federal funds being committed by HAP (24 CFR Part 58). No commitment or disbursement of funds will occur prior to completion of the review. 24 CFR 58.35(b)(5) defines homebuyer assistance activities as “categorical exclusions not subject to § 58.5” using the following wording:

“Activities to assist homebuyers to purchase existing dwelling units or dwelling units under construction, including closing costs and down payment assistance, interest buydowns, and similar activities that result in the transfer of title.” **Note: 24 CFR 58.5 may not be applicable as noted above. All files will contain documentation that the assisted activities are in compliance with 24 CFR 58.6.**

When a homebuyer meets this definition, the City’s responsibilities as the Responsible Entity (RE) are described on p. 13 of CPD-01-11:

“These activities are treated like exempt activities. The RE is not required to undertake NEPA level review or document that the activities comply with other Federal laws and authorities found at §58.5. Additionally, no public notices are published, and a Request for Release of Funds and Certification is not submitted to HUD (or the state in the case of state recipients). The RE must document its determination that the activity is a categorical exclusion not subject to §58.5 authorities, and place the document into the Environmental Review Record.”

There is one condition under which homebuyer assistance alone might be considered subject to § 58.5 and one condition that might require NEPA environmental assessment under § 58.36 or categorical exclusion under 24 CFR 58.35(a).

1. If the commitment is made to a homebuyer prior to initiation of the construction of the house.
2. If the downpayment assistance financing is committed, reserved or otherwise directed to a specific developer or project prior to initiation of construction, whether by application of the developer (or intent to apply) or declaration of the city to set-aside funds for particular projects. In such cases, the presumption has to be that the buyer assistance is integral to the overall financing of the project.

In these cases, the City cannot proceed with commitment and the developer cannot proceed with construction until the City determines whether the project qualifies under § 58.35(a), 58.34(a)(12), or 58.36 and completes the appropriate review. All stop-work provisions should apply until the appropriate review can be completed.

Under these circumstances in single family situations of less than 5 units, a homebuyer project may be categorically excluded but subject to § 58.5. The project may be converted to exempt, if no conditions apply, as outlined in Section IV.D of CPD Notice 01-11 (see pp. 15 -16). However, a HOME project is subject to both NEPA and § 58.5 and requires an environmental assessment under § 58.36 if the following conditions apply:

- The project is 5 or more units of new construction, or a multifamily rehabilitation project that fails to satisfy the conditions of categorical exclusions under 24 CFR 58.35(a)(3)(ii) or a single family (1-4 units) rehabilitation project that fails to satisfy the conditions of 24 CFR 58.35(a)(3)(i) (i.e., the project will be considered as needing an Environmental Assessment when the project will result in the production of 5 or more units, involves a change in land use, or will increase the footprint of the building in a floodplain or wetland); and

- The request for homebuyer assistance precedes construction and is determined to be integral to the project financing assembled by the developer for 5 or more units.

All of these responsibilities will remain with the City as the Responsible Entity, even if the City should later delegate other program administrative responsibilities to a subrecipient.

Required Documentation:

Homebuyers may be approved for downpayment assistance only to purchase existing homes or homes already under construction at time of application for assistance. The ALP and homebuyer must submit "Builder's Certification Letter" and property pictures to certify that the unit was under construction when the homebuyers signed "The Terms and Conditions of HOME Program Assistance". The above-mentioned documents must be placed in the file as part of the determination that the downpayment assistance complies with 24 CFR 58.35(b)(5). For all existing dwelling units and dwelling units under construction a complete Compliance Documentation Checklist 24 CFR 58.6 is required.

In addition, a copy of the Flood Insurance Determination Form must be submitted.

G. Historical Review

A historical review must be performed on all new construction properties and existing properties that will require rehabilitation prior to receiving federal funds.

Required Documentation

As a part of the department's Environmental Review process all new construction projects will undergo the Section 106-historical review. If a potential homeowner is requesting downpayment for an existing home that will require rehabilitation, that home must undergo the Section 106 review. If the homeowner is requesting downpayment for an existing home that does not include rehabilitation, the 106 review is not required. However, the existing property must be in compliance with the law and authorities specified in 24 CFR 58.6.

H. Use of Property as a Principal Residence:

The property must be occupied as the principal residence by the homebuyer throughout the full affordability period (10 years) commencing on the date that all required completion data is in IDIS.

Required Documentation:

A fully executed **Terms and Conditions of HOME Program Assistance** must be submitted when the ALP submit the loan package for approval. A Second Lien Deed of Trust payable to the City of Houston will be duly recorded upon loan closing and submitted to the City. All required completion data will be entered into IDIS within three (3) business days of the date of closing.

I. Relocation Obligations:

The Uniform Relocation Act (URA) applies to federally assisted homebuyer programs. The purchase of an occupied unit will be allowed when occupied by the seller only. Otherwise vacant units are eligible to be purchased. If Seller currently occupies the property, the Seller will waive rights to relocation benefits.

Required Documentation:

The Seller will submit a signed "Affidavit of Selling Parties" to the Lender that attests to the fact that the property is not currently leased, unless to the buyer in the transaction.

Section III – Participating Partners

The participating agencies that participate in the GNND Program will follow and comply with all HCDD established eligibility procedures.

A. Affordable Lending Partners:

The participating institution of the ALP in processing mortgages for HCDD applicants will follow the HCDD established eligibility procedures. All programs available to the ALP including conventional, portfolio, FHA, VA or other types are allowable. The homebuyer(s) are encouraged to contact their ALP of choice and make an application for "pre-approval" to purchase a home. Upon approval, or during the process, they will contact a Participating Realtor to identify properties. Each ALP will submit (courier-return receipt required or regular mail) to HCDD a complete package of required program documents on each applicant requesting Program funds. The file must be submitted in a folder with all pages secured to the folder. HCDD will verify all the information contained on each applicant in order to qualify the household for financial assistance.

B. Participating HUD Approved Homebuyer Counseling Agencies

HCDD will refer all applicants to a comprehensive counseling program. Counseling programs will encourage individuals to participate in homeownership and provide a method to track the achievement of the homeownership goal.

Section IV - Loan Financing and Closing Requirements

The property must be occupied as the principal residence by the applicant throughout the loan maturity period commencing on the date of closing. All required completion data will be entered into IDIS within three (3) business days of the date of closing. A Second Lien Deed of Trust will be obtained to secure Homebuyer's compliance with the affordability period and all other requirements of the GNND Program. The applicant will also execute the Second Loan Note.

The Second Lien Deed of Trust and Loan Note will require an affordability period. Payments on the loan are to be "deemed paid" if there is no change in use and/or occupancy during the loan affordability period (10 years). Should a change in ownerships (including foreclosure) or occupancy occur during the loan affordability period, the full amount would immediately become due and payable to the City from the Net Sales Proceeds, which shall be the sales price

minus superior loan repayment (other than HOME funds) and any closing costs. Please refer to the Second Lien Deed of Trust and Loan Note for more detailed information on the program loan.

A. Program Loan

The terms for assistance require 0% interest, deferred payment loan. There are four (4) key requirements to this “Soft Second” loan:

- The loan is not assumable.
- Owner financing is not acceptable under this program.
- No cash out home equity loan.
- **Subordination of the city’s soft-second lien is at sole discretion of the city. Requests for subordination must be submitted to the city for review and approval. Such request will be considered only acceptable changes to the interest rate and/or term, and be subordinate.**

Required Documentation:

HCDD will prepare required documentation in order to satisfy the GNND Program requirements.

B. Lender Mortgage Interest Rate

ALPs will price the program at an interest rate that **will not exceed the intended federal funds rate plus 2.25%**. No discount points may be paid and neither temporary nor permanent interest rate buy-downs may be paid by the borrower. Please refer to ALP Acknowledgement executed by your company.

Required Documentation:

Loan Approval Letter with appropriate signature(s).

B. Closing Cost

- Closing cost will be limited to actual cost.
- ALP fees defined as any fees received by the ALP not paid to a third party are limited to \$650.
- **In addition to the ALP loan origination fee described above, all ALP fees that are not paid to a third party are limited to \$650.**
- Participating Realtor fees are not eligible closing costs.
- Mortgage wholesale or broker transaction fees paid by the applicant are limited to \$650.

Required Documentation:

Certificate of Lender Approval is required. HCDD staff will review the HUD I Settlement Statement to ensure compliance

C. Borrowers Cash Investment Requirement

The borrower must invest at least \$500 into the transaction plus have at least \$1,000, but not more than \$50,000, in reserves (excluding retirement accounts). The cost of the appraisal, credit report, inspection, earnest money and/or cash brought to closing qualifies under this requirement.

Required Documentation:

HCDD staff will review the HUD I Settlement Statement to ensure compliance. HCDD will review Verification of Deposits (VOD), bank statements and/or cashier's checks to verify that the borrower has at least \$1000 in reserves.

D. Liens

The only liens to be placed on the property purchased through HAP will be the ALP's First Lien Deed of Trust and the City's Second Lien Deed of Trust. There will be no third lien recorded related to the purchase of property without prior written approval of the HCDD Director. Violations can result in ALP debarment from participation in HAP.

Required Documentation:

Executed HCDD Form 106 "Lien Subordination Agreement."

E. Homebuyer Assistance Program Closing Procedures

Once HCDD has received a **complete** file, an evaluation of the information will be performed in order to determine the prospective homebuyer's eligibility for GNND Program funds and the amount of financial assistance required to facilitate the purchase of the housing unit. **If the file is not complete upon receipt, the ALP will be notified and give the opportunity to submit the required information.**

If for any reason the prospective homebuyer does not qualify for financial assistance, a letter of explanation will be sent to the ALP and homebuyer. The ALP and prospective homebuyer will be given an opportunity to provide additional pertinent information and then re-submit the file. The review process will be the same for the re-submitted file.

When an applicant is certified as eligible for the GNND Program and the amount of financial assistance has been determined, then HCDD will utilize the step-by-step closing procedure as follows:

1. ALP will be notified via fax of approval or deficiencies within fifteen (15) business days of HCDD receipt of a complete application. HCDD Supervisor/Manager will sign the faxed Transmittal Form.
2. HCDD Inspection Services Section will perform an inspection(s) on the property within fifteen (15) business days of HCDD receipt of a complete application.

3. If the file has been approved, HCDD will fax a copy of the client approval letter with the GNND's loan amount to the ALP and title company. HCDD will request the preliminary HUD I, first page of First Lien Deed of Trust and Schedule A & B of the title commitment from the ALP. HCDD will review the HUD I to determine if charges are eligible pursuant to GNND Program guidelines. HCDD will notify the ALP of the outcome of the review.
4. During the HUD I review process; HCDD will prepare the Second Lien Deed of Trust, Loan Note, and Closing Instructions.
5. Once the HUD I has been accepted, HCDD will contact the appropriate title company to pick up a check and all prepared and executed documents.
6. After closing, the title company will submit to HCDD the original recorded and executed Second Lien Deed of Trust, Loan Note, HUD I Settlement Statement and a copy of the ALPs recorded First Loan Note and Deed of Trust.

It should be noted that the HUD I, first page of First Lien Deed of Trust and Schedule A & B of Title Commitment must be received at HCDD by 10:00 a.m. if the file is scheduled to close the next business day. No exceptions will be made.

These Guidelines incorporate the following documents which will be utilized to administer the Good Neighbor Next Door Program and which are attached hereto as **Appendix I**:

- a. Instructions for Executing the Terms and Conditions of HOME Program Assistance for the Good Neighbor Next Door Program
- b. Terms and Conditions of HOME Program Assistance for Good Neighbor Next Door Program
- c. Loan Note for Good Neighbor Next Door Program (Deferred Payment)
- d. Second Lien Deed of Trust for Good Neighbor Next Door Program

APPENDIX I